The Real Estate ANALYST

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A concise easily digested periodic analysis based upon scientific research in real estate fundamentals and trends. Constantly measuring and reporting the basic economic factors responsible for changes in trends and values....Current Studies....Survey....Forecasts

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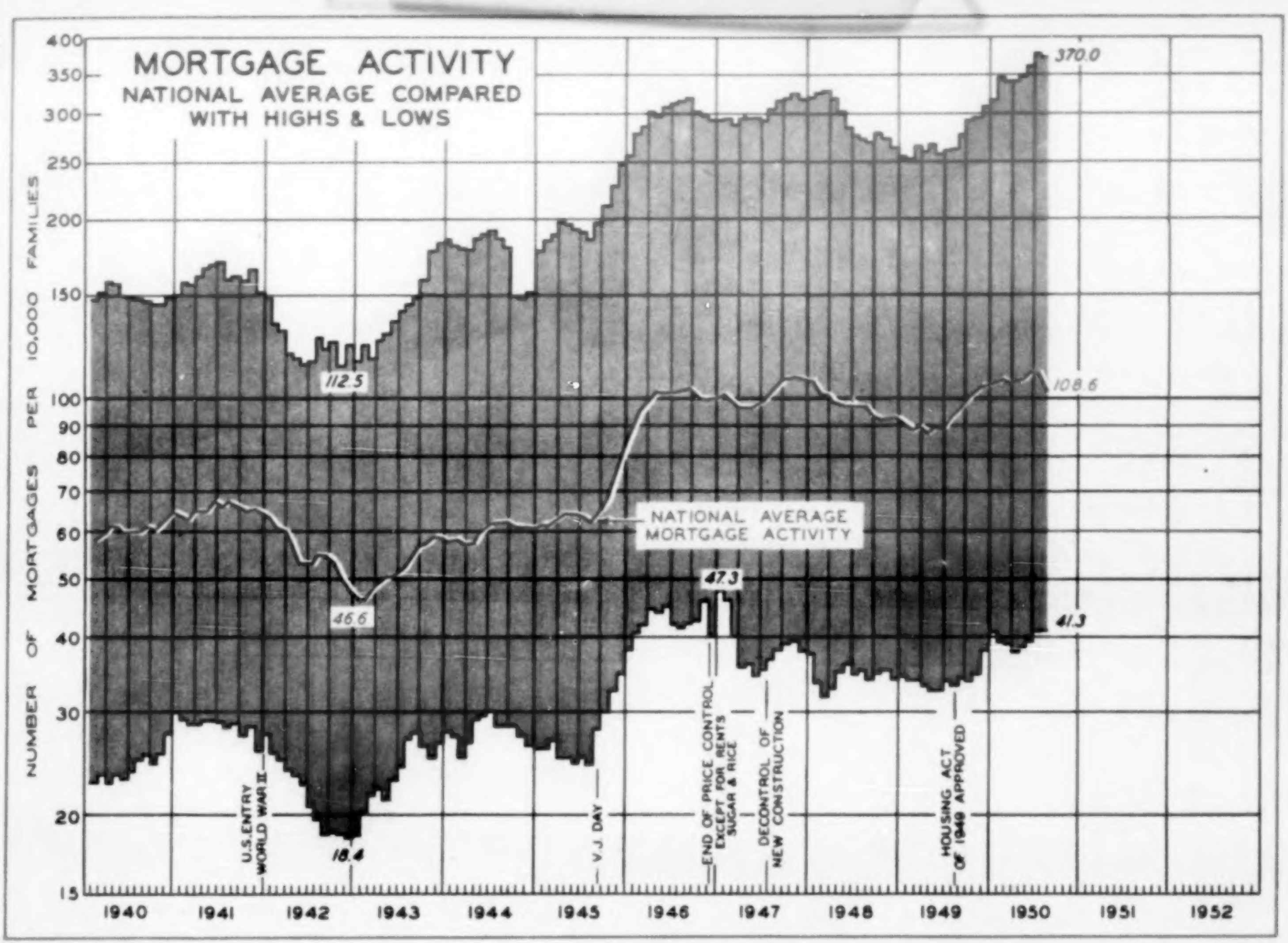
REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REGULATION X MARKS THE SPOT

IN our September 1950 Trends Bulletin we were not particularly concerned over the FHA-VA restrictions in force at that time, and said, "We might also add that any real government-induced crimp in the boom will come from future restrictions rather than that recently enacted." So now the "future restrictions" become the bleak reality of the present, and all industries contributing to and benefiting from the housing boom will head for lower levels. The ones to suffer the most will be the home builders because they are affected the most quickly, the most directly and most drastically. Their total gross business will be chopped from 1,300,000 units to 800,000 units per year, a drop of approximately 40%. At least that seems to be the present intention of the government. (This percentage may be more or less, depending on what proportion of the 800,000 units are in more than two-family buildings which are as yet not under credit restrictions.) Naturally, this does not mean that all builders will suffer such a drop during the coming year. It is conceivable that some builders will be affected very little. Those specializing in very-low-cost homes and those able to build and market rental-type properties might get by rather nicely for a while. On the other hand, there are bound to be a number, possibly a considerable number, of builders forced to leave the home building field. The builders are in for a rugged time, and few know it better than they do. Just how rugged and in what sections of the country, only time will tell.

The real estate brokers are also going to be pinched, but not nearly so hard as the builders. To begin with, their livelihood is not entirely wrapped up in new home production. They can continue to sell and resell the very large number of houses that are already in existence. After all, real estate reached its greatest peak in history in May 1946 with a building rate a shade lower than the contemplated 800,000 units. Moreover, as we have pointed out before, a considerable number of the new homes have been moving into the market without benefit of (or to) the average real estate broker. The builders have been selling them. So, since the brokers wouldn't have gotten the listings on many of these houses anyway, they will not be too distressed (economically) if they are never built. Nevertheless, national real estate activity is almost certain to drop, but there will possibly be very strange activity patterns set up in some of the different cities. It is certainly probable that some cities will have a boom in the sale of existing homes. This could easily happen if the local supply of housing is still fairly tight or if prospective purchasers get the notion that credit controls are also apt to be placed against existing properties. If both of these conditions exist in a city, a wild local boom could result and sales prices would be far out of proportion to any reasonable long-term value.

The mortgage lenders - that group to which the pressure is applied directly -
(cont. on page 463)


MORTGAGE ACTIVITY
NATIONAL AVERAGE COMPARED WITH HIGHS & LOWS
NUMBER OF MORTGAGES PER 10,000 FAMILIES
400
350
300
250
200
150
100
90
80
70
60
50
40
30
20
15
1940
1941
1942
1943
1944
1945
1946
1947
1948
1949
1950
1951
1952
370.0
112.5
108.6
NATIONAL AVERAGE MORTGAGE ACTIVITY
47.3
46.6
41.3
18.4
U.S. ENTRY WORLD WAR II
V.J. DAY
END OF PRICE CONTROL EXCEPT FOR RENTS SUGAR & RICE
DECONTROL OF NEW CONSTRUCTION
HOUSING ACT OF 1949 APPROVED

REGULATION X MARKS THE SPOT

(cont. from page 461)

will probably be hurt the least. To be sure, their daily routine will be complicated still further and there will be great confusion as to what they will and will not be allowed to do. However, like the real estate brokers', the mortgage lenders' activities are not completely tied to new construction. They will continue to refinance old loans and to finance new loans on homes started prior to the August 3, 1950, deadline. On the other hand, the mortgage lenders are the only ones that will have to place themselves under a "voluntary" control as a result of Regulation X and the shortened FHA-VA credit. In many instances, they will have to resist the temptation to make low-equity loans on older properties. With low-equity credit on new houses choked off, there are apt to be the localized booms in older homes that we mentioned earlier. As these booms develop and unnatural rises occur in selling prices, pressures will develop for loans that are definitely unsound.

Since we are discussing those who will be affected, let us not forget the prospective purchasers of new homes who are also jolted rather sharply by the new regulations. The effect on them, however, will be superficial. In most cases it will mean only delay and they will begin their career as home owners in a stronger and sounder financial condition.

Our position on Regulation X is that, viewed by itself, it is a bad thing, just as any control is a bad thing; but it is infinitely more desirable than either of its two alternatives - continued inflation, or all-out price and wage controls. The imposition of Regulation X marks one of the few instances when our government has struck hard at the roots of inflation. While we can see some unfavorable aspects to these controls, we believe that in the long run the principle behind them is sound. They may not be entirely successful in halting inflation, but we are glad to see that at long last steps are being taken to relieve inflationary pressure at its source rather than attempting to check it with a patchwork of price and wage controls.

MORTGAGE ACTIVITY NEARS DOWNTURN

SINCE a production volume of 800,000 to 850,000 housing units has apparently been selected by the government, it may be helpful to look back at those years when a similar volume was produced. In this way we may be able to obtain a rough guide as to what activity levels may be maintained in the face of this cutback. Such a yardstick is admittedly rough. As we pointed out before, real estate activity reached its record-breaking peak of 86 points above normal in May 1946 with very little assistance from the sale of new homes. Mortgage activity also reached a high level during that period. Nevertheless, we have devoted a large portion of this bulletin to mortgage activity charts in individual cities and to other factors dealing with the mortgage lending picture.

On page 462 is a chart on mortgage activity by months from 1940 through the first eight months of 1950. The top border of the blue shaded area represents the highest point reached by any individual city during each month covered by the chart. The bottom border of the blue shaded area represents the lowest point reached by any individual city during each month covered by the chart. The red line running through the chart shows the national average of mortgage activity.

(cont. on page 470)

MORTGAGE ACTIVITY IN PRINCIPAL CITIES

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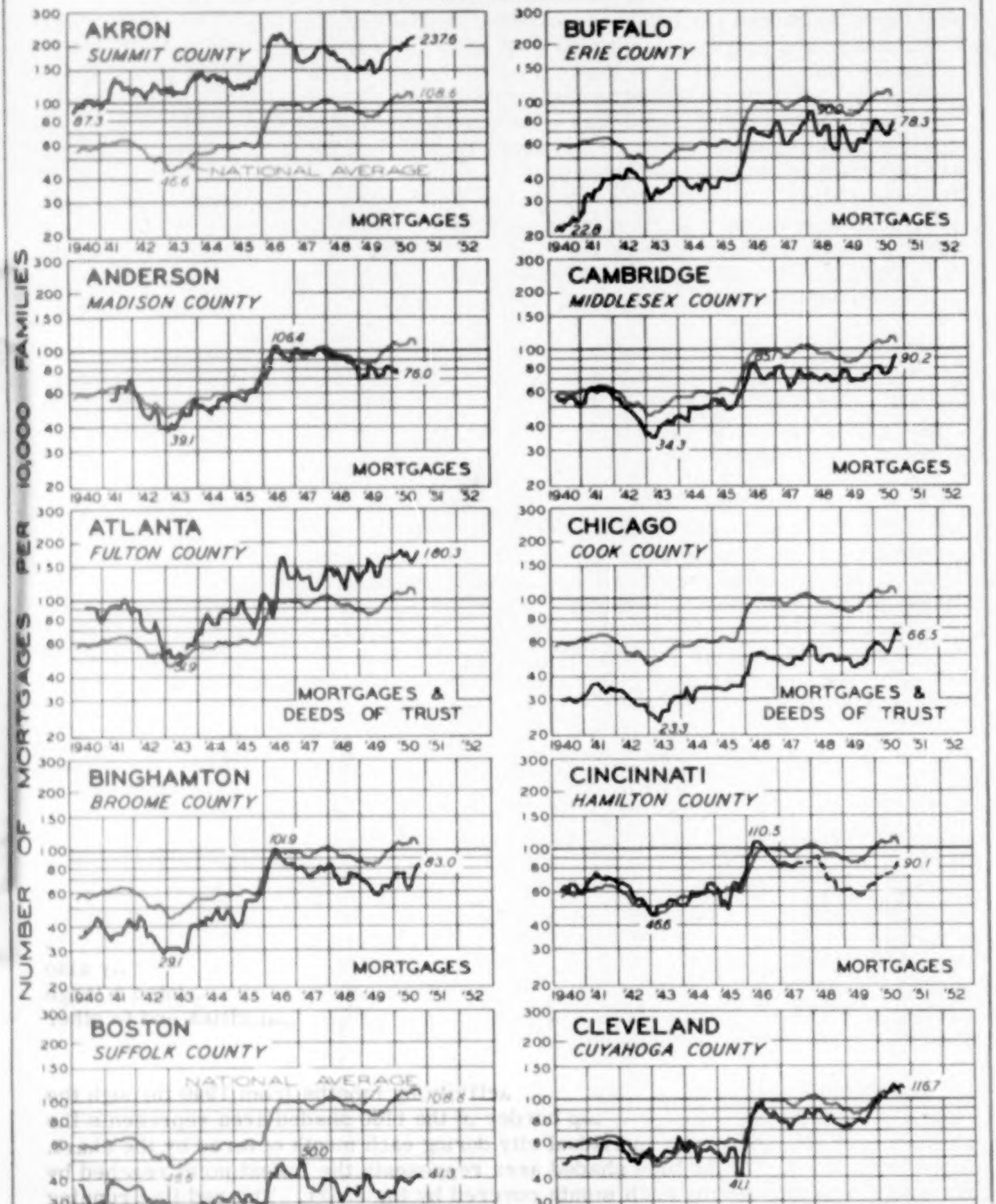
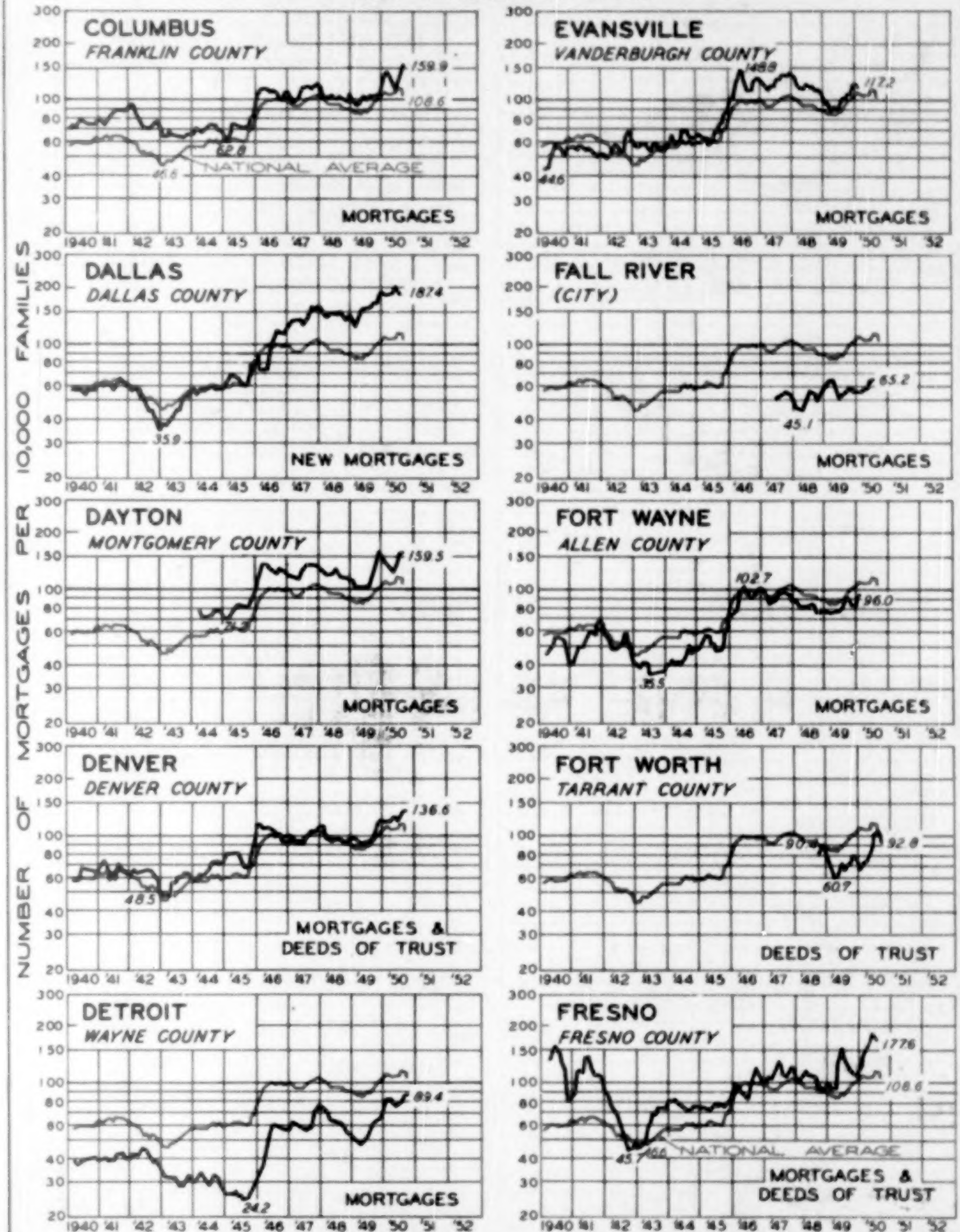
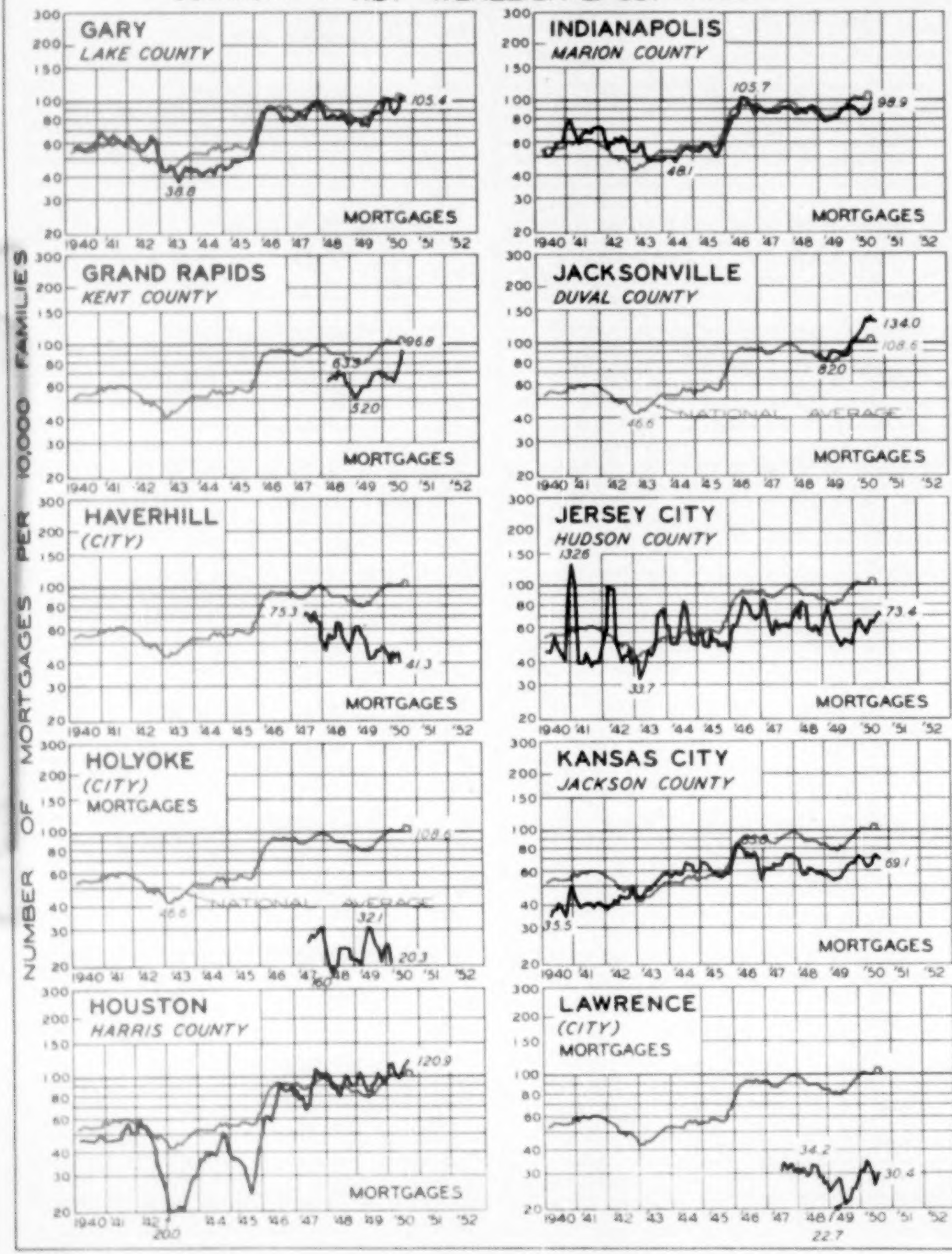


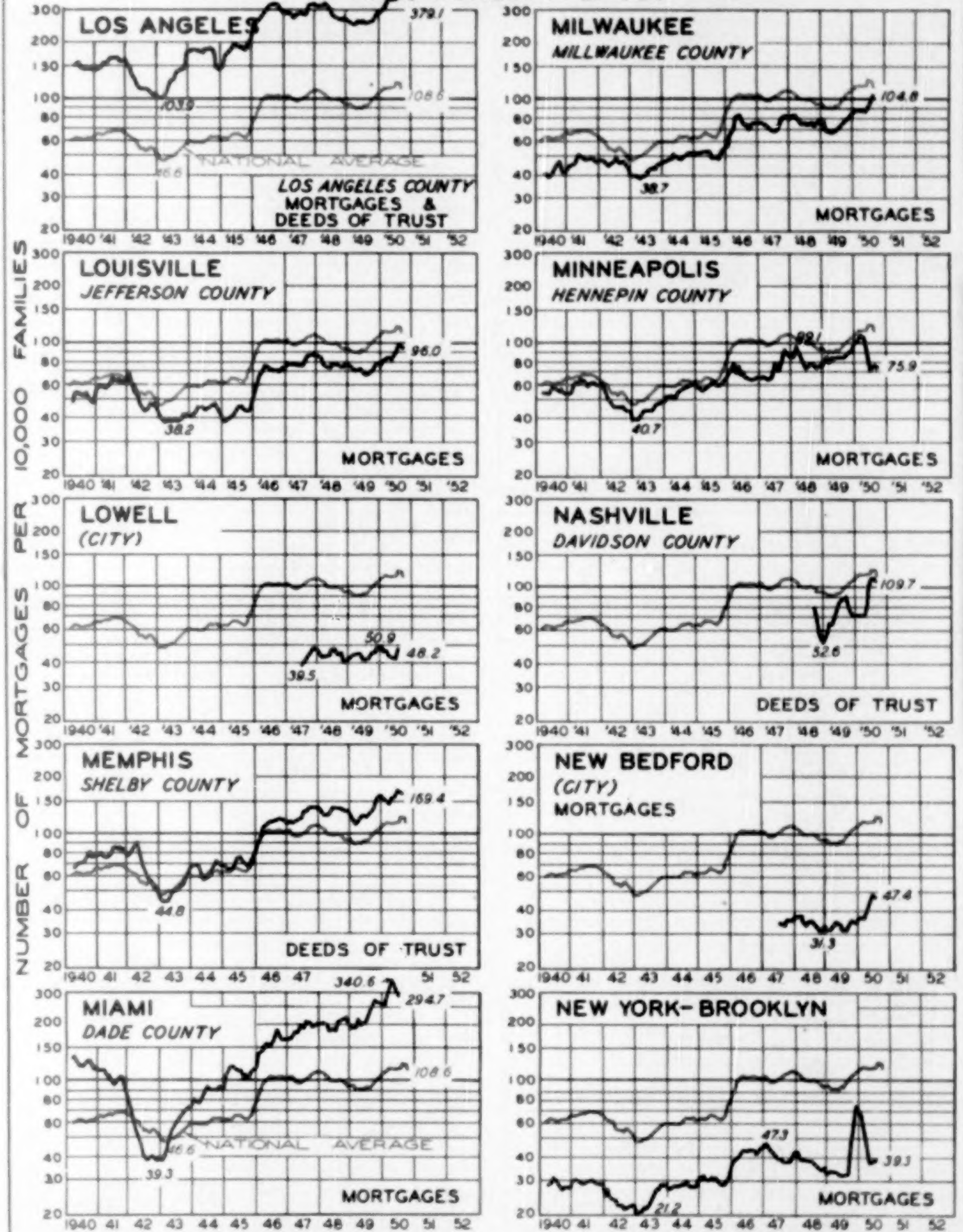
MORTGAGE ACTIVITY IN PRINCIPAL CITIES



MORTGAGE ACTIVITY IN PRINCIPAL CITIES



MORTGAGE ACTIVITY IN PRINCIPAL CITIES



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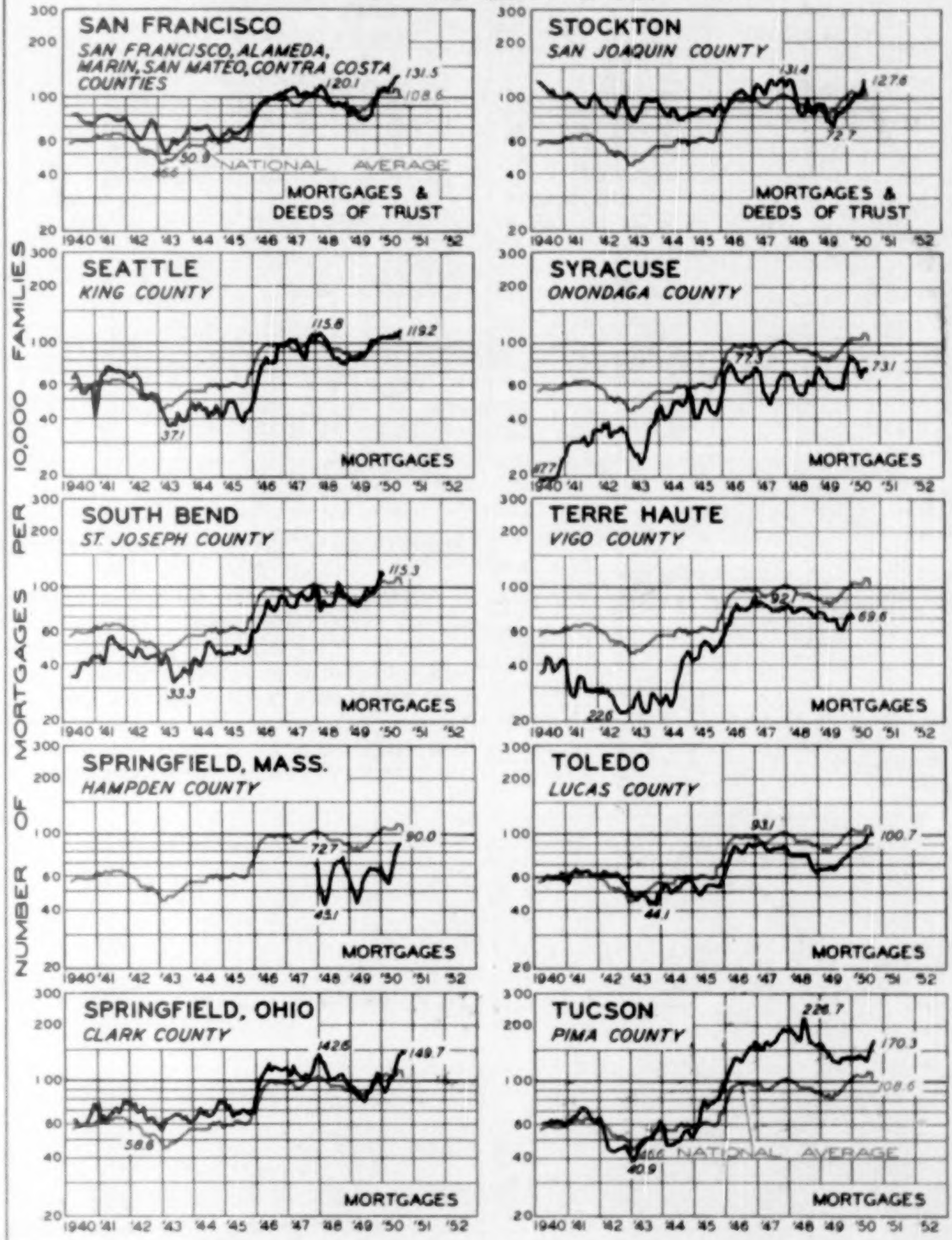

MORTGAGE ACTIVITY IN PRINCIPAL CITIES

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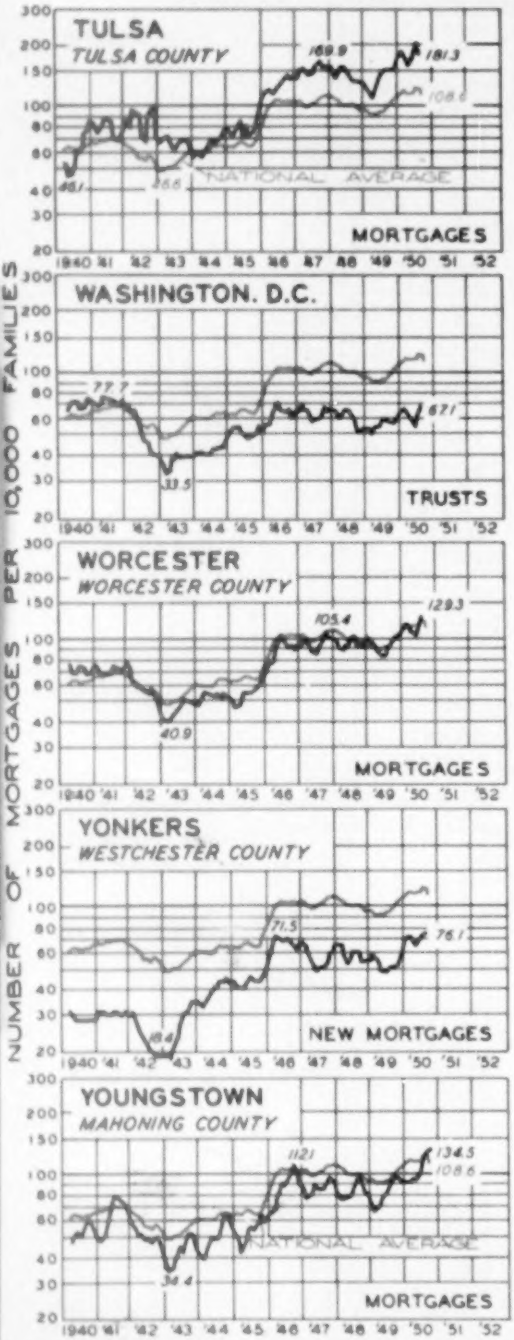
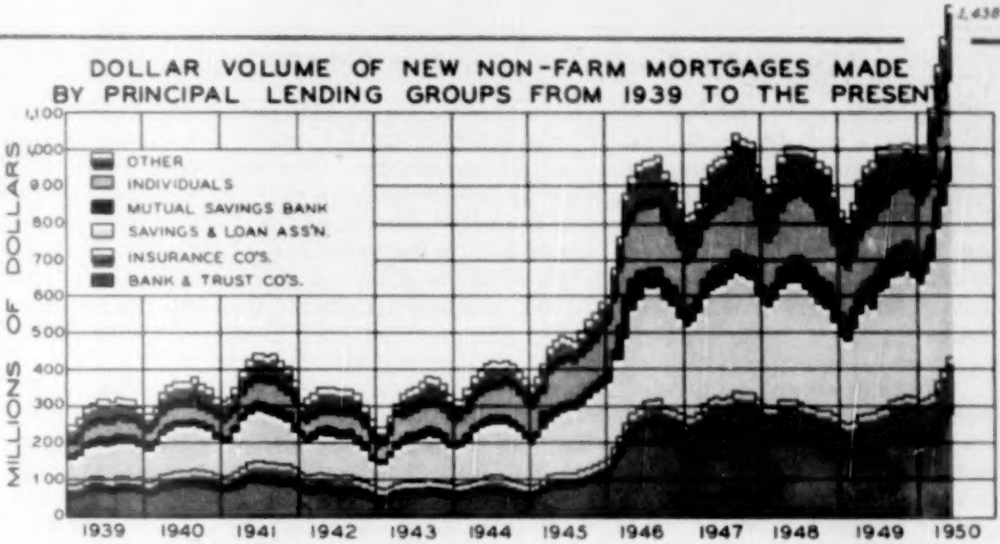


MORTGAGE ACTIVITY NEARS DOWNTURN

(cont. from page 463)

Virtually all of the charts on mortgage activity show rising trends. This is because the impact of the October controls has not yet been reflected in mortgage statistics. All of them will show a downturn before long.



The chart above shows why the government, and particularly the Federal Reserve Board, is so concerned over real estate credit. Virtually all classes of lenders have expanded their mortgage activities to new levels. Banks, insurance companies, savings and loan companies and that large group classified as "other"* have all moved ahead rapidly during 1950. Throughout most of the boom individual lenders have been right in the thick of the struggle to lend money. During 1950, however, their participation has thinned out somewhat.

The chart below shows the percentage distribution of nonfarm mortgages by type of lender. Bank participation on a percentage basis had been dwindling slowly for several years but stabilized during 1950 at a level slightly above 20%.

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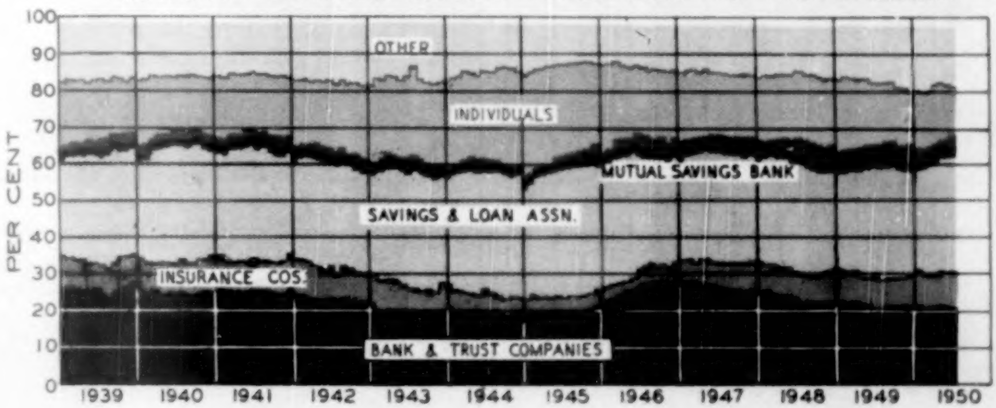
*Real estate, bond, title, mortgage and construction companies, philanthropic and educational institutions, fraternal organizations, and RFC Mortgage Company.



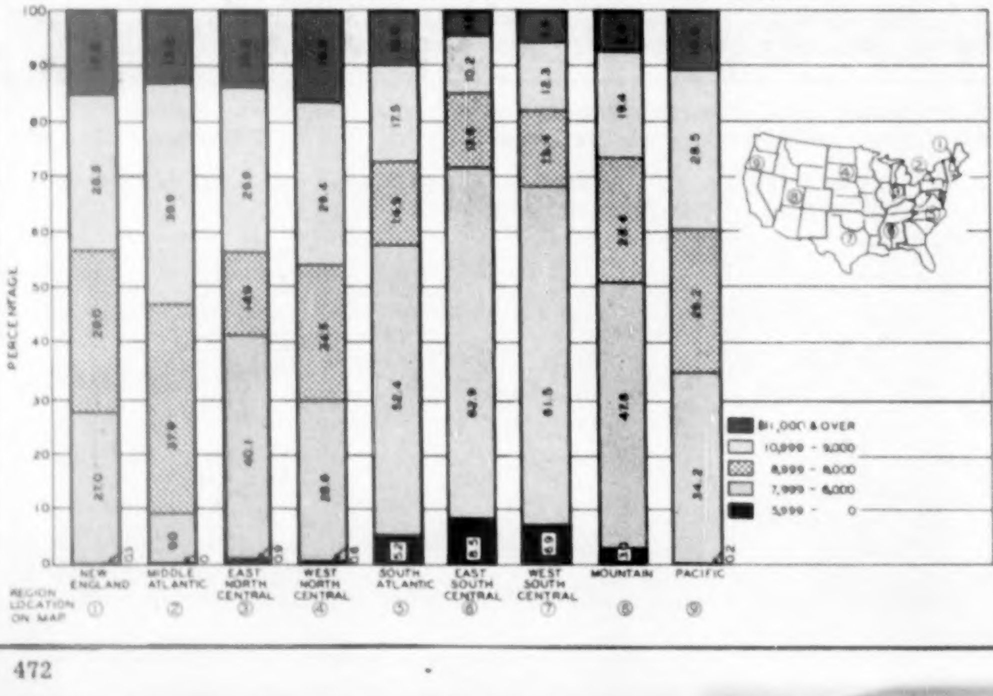
POSSIBLE IMPACT OF NEW FHA RESTRICTIONS

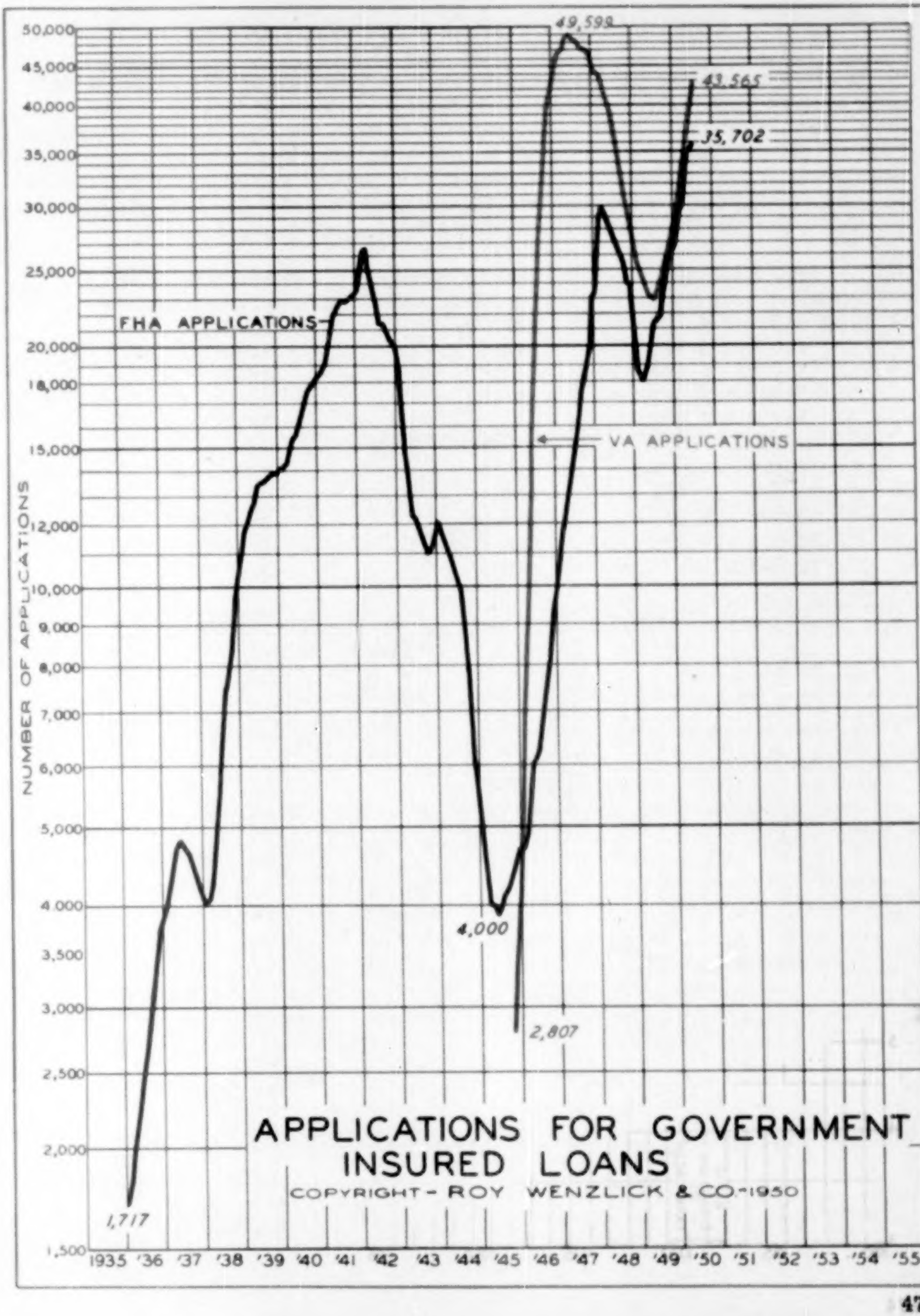
IT is difficult to make anything more than a general statement regarding the impact that the new credit restrictions will have on FHA-insured mortgage activity. That statement, naturally, predicts a decline. The rapidity of the decline will vary from one part of the country to another because of the wide differences in the types and prices of new homes in the various sections. In the southern part of the United States there are more homes built in the lower price brackets than in the northern part. Therefore, the southern cities will have a greater number of new homes that can qualify for the relatively low down payments than will the northern cities.

We have attempted to show a breakdown by "valuation" in the bar chart at the bottom of the page. Each bar represents one of the nine major geographical divisions of the United States. These bars are divided into five parts - each part representing the percentage of new homes that fall into the various price brackets. The price brackets are shown in the legend of the chart. There are several things that should be kept in mind when studying this chart. The figures are based on FHA valuations, which do not necessarily represent selling prices. The difference between these valuations and actual selling prices will no doubt vary from one part of the country to another as the leniency of FHA appraisals varies. Another point to keep in mind is that these figures apply only to the last half of 1949. Finally, these figures cover only single-family homes insured under Section 203.

(cont. on page 474)

PERCENTAGE DISTRIBUTION OF PROPERTY VALUATION BY REGIONS IN THE UNITED STATES





50,000
45,000
40,000
35,000
30,000
25,000
20,000
18,000
15,000
12,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,500
3,000
2,500
2,000
1,500
NUMBER OF APPLICATIONS
1935 '36 '37 '38 '39 '40 '41 '42 '43 '44 '45 '46 '47 '48 '49 '50 '51 '52 '53 '54 '55
FHA APPLICATIONS
VA APPLICATIONS
49,598
43,565
35,702
4,000
2,807
1,717
APPLICATIONS FOR GOVERNMENT
INSURED LOANS
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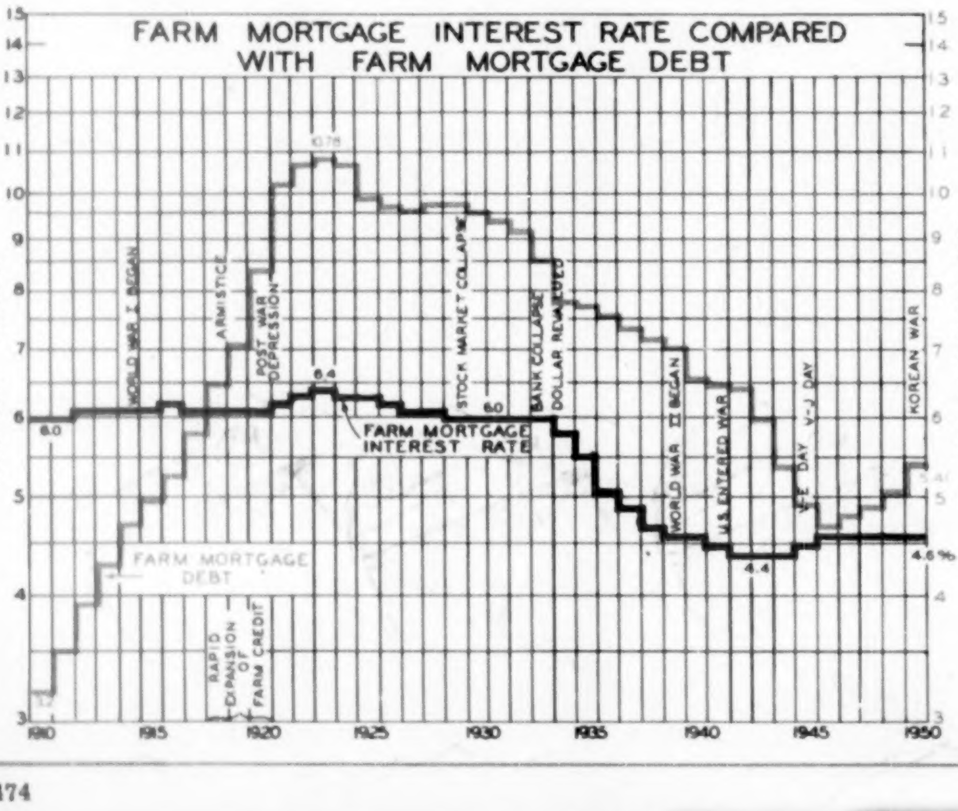
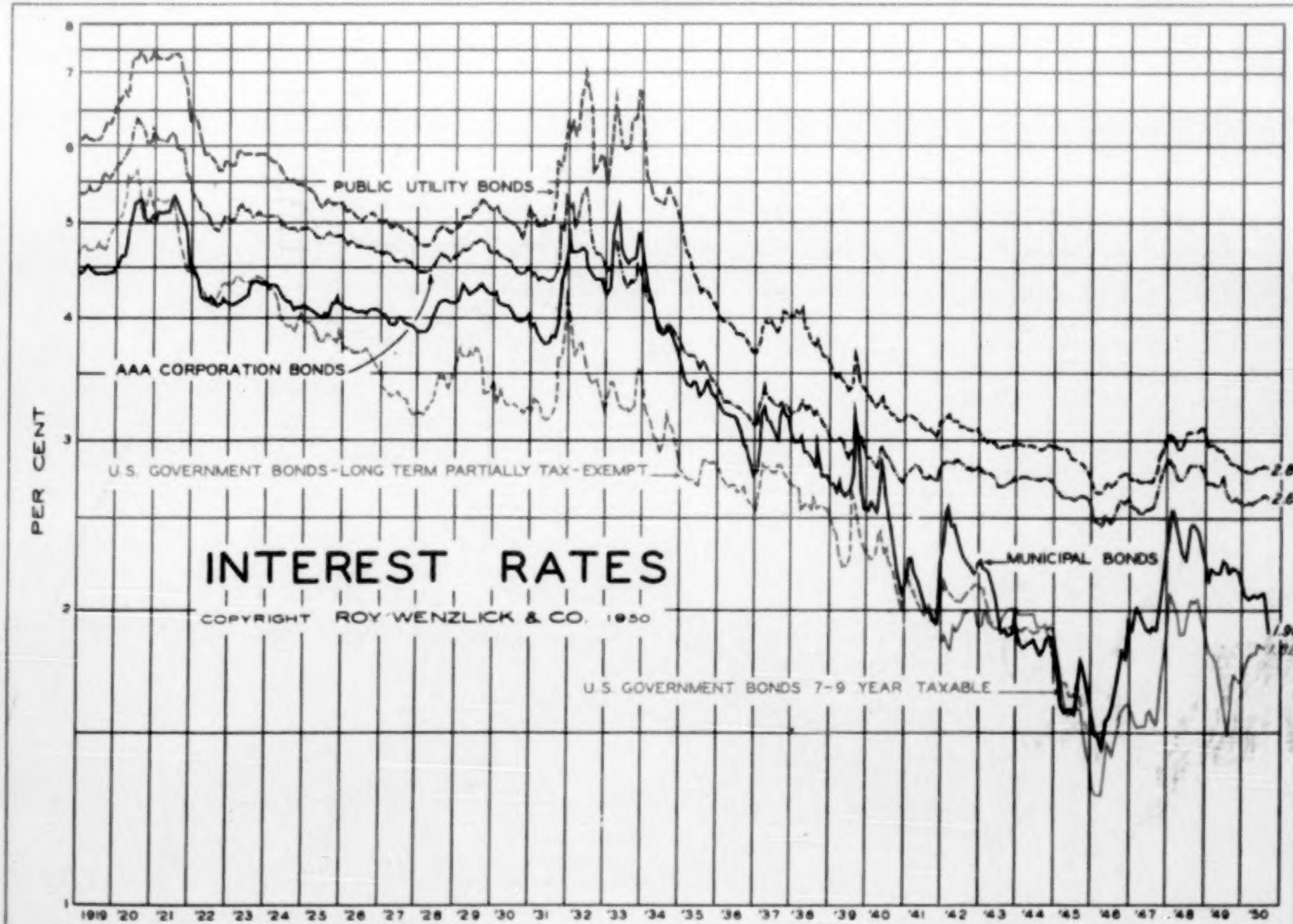
POSSIBLE IMPACT OF NEW FHA RESTRICTIONS
(cont. from page 472)

In order to help our clients estimate the repercussions of FHA restrictions in their area we have prepared the following table in conjunction with the chart. This table compares the approximate down payment made on Section 203 loans insured in 1949 and the new down payment requirements. In using this table allowance must again be made for the difference between FHA valuations and bona fide sales price as defined under the new regulations. Clients are in a better position to judge this difference than we are because it will vary from one city to another.

FHA valuation (single-family homes)	Approximate average down payment, 1949	New minimum down payment requirements
$ 4,000-$ 4,999	11.5%	10.0%
5,000- 5,999	10.6	10.0
6,000- 6,999	10.6	14.2
7,000- 7,999	11.6	17.1
8,000- 8,999	11.4	19.4
9,000- 9,999	11.6	21.1
10,000- 10,999	12.1	23.0
11,000- 11,999	12.3	24.5
12,000- 13,999	13.0	25.8-26.9
14,000- 15,999	12.9	27.9-28.7
16,000 & over	13.5	31.9-50.0




INTEREST RATES
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PER CENT
PUBLIC UTILITY BONDS
AAA CORPORATION BONDS
U.S. GOVERNMENT BONDS-LONG TERM PARTIALLY TAX-EXEMPT
MUNICIPAL BONDS
U.S. GOVERNMENT BONDS 7-9 YEAR TAXABLE
2.80
2.61
1.90
1
2
3
4
5
6
7
8
1919
'20
'21
'22
'23
'24
'25
'26
'27
'28
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'33
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'40
'41
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'43
'44
'45
'46
'47
'48
'49
'50

DOLLAR'S PURCHASING POWER DOWN VERY LITTLE

DESPITE all of the discussion over inflation, the value of the average consumer dollar has really slipped very little. We all know that as prices go up, the value of the dollar goes down, and vice versa, and saying that the value of the dollar has gone down is just another way of saying that prices have gone up.

We also know that the value of the dollar changes from one commodity to another. For example, if a family's rent has not increased since 1939, then their rent dollar is still worth about 100¢ (to them, not to their landlord). On the other hand, because of rising food prices, the food dollar is only worth something between 50 and 60¢.

Generally, when anyone speaks of the purchasing power of the dollar, he is talking about the retail consumer's dollar. Its value is based on the consumers' price index* compiled by the Bureau of Labor Statistics. As the consumers' price index rises, the value of the dollar goes down. From June 1950 through August 1950 this index rose about 1.6% and the value of the dollar dropped about 1.7%. The chances are that we will continue to have a slowly rising price level and that the value of the dollar will decrease gradually during the next several months.

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*Popularly and somewhat inaccurately known as the "cost of living" index.